

The Company and certain affiliated companies owned by Kamine share certain administrative services. The entity which bears the cost of the service is reimbursed by the other for the other's proportionate share of such expenses. The Company reimbursed Kamine-affiliated companies for these shared services an aggregate of approximately \$136,000, \$60,000, and \$0 of expense for the years ended December 31, 1998, 1999 and 2000, respectively. During 1999, the Company purchased approximately \$180,000 of office furniture and leasehold improvements from an entity controlled by Kamine.

The Company leases its headquarters office through January 2012 from an entity in which a trust for the benefit of Kamine's children owns a fifty percent interest. This new lease provides for a base annual rental cost of approximately \$1.0 million, adjusted periodically for changes in the consumer price index, plus operating expenses. Rent expense recognized under this new lease and a predecessor lease (pursuant to which the Company had leased smaller amounts of space) for the years ended December 31, 1998, 1999 and 2000 was \$217,000, \$217,000 and \$1.1 million, respectively.

Pursuant to an agreement dated as of January 1, 1999, the Company is entitled to use a Citation III business jet chartered by Bedminster Aviation LLC, a limited liability company wholly owned by Kamine, for a fixed price per

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hour of flight time. During 1999 and 2000, the Company paid approximately \$210,000 and \$1.7 million, respectively, for the use of the Citation III. The Company has agreed to use its best efforts to use the Citation III fifty hours per quarter during 2001. However, the Company is under no obligation to do so and it has not guaranteed any financial arrangements with respect to the aircraft or to Bedminster Aviation LLC.

The Company is currently in negotiations to complete the transfer of its construction division to KNT Network Technologies, LLC ("KNT") a company independently owned by Harold N. Kamine and Nassau Capital, the principal stockholders of the Company. Pursuant to an arrangement between the parties, effective June 1, 2000, the Company transferred substantially all of the employees of its construction division to KNT. KNT is providing construction and maintenance services to the Company and is being reimbursed for all of the direct costs of these activities. In addition, the Company is currently funding substantially all of KNT's general overhead and administrative costs at an amount not to exceed \$15 million per annum.

Amounts paid to KNT during fiscal 2000 related to this arrangement amounted to \$20.0 million, of which \$8.7 million was for network related construction and was capitalized into networks and equipment and the balance was charged to expense. Further, the Company may be entitled to participate in future profits of KNT, to the extent KNT develops a successful third-party construction business.

The Company is currently negotiating with KNT to finalize the terms of this arrangement and execute a formal contract which is required to be completed by June 15, 2001.

Pursuant to an agreement between the Company and Nassau, Nassau was paid \$450,000 per annum in cash as a financial advisory fee for the years ended December 31, 1998, 1999 and 2000.

Upon the initial closing of the offering of the Series G Convertible Preferred Stock in July 2000, the Company paid a fee of \$1.0 million in cash to Nassau.

Upon the initial closing, in November 2000, of the 48 month loan which the Company obtained to finance the KMC Funding Equipment, the Company paid a fee of \$1.0 million in cash to Dresdner Kleinwort Benson North American Leasing, Inc.

As of December 31, 1999 and 2000, the Company has made loans aggregating \$575,000 and \$350,000 respectively, to certain of its executives. Such loans bear interest at a rate of 6% per annum and are included in other

assets.

13. NET LOSS PER COMMON SHARE

The following table sets forth the computation of net loss per common share:

	1998	1999	2000
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Numerator:			
Net loss before cumulative effect of change in accounting principle.....	\$ (76,753)	\$ (225,716)	\$ (357,982)
Cumulative effect of change in accounting principle.....	-	-	(1,705)
Net loss.....	(76,753)	(225,716)	(359,687)
Dividends and accretion on redeemable preferred stock.....	(18,285)	(81,633)	(94,440)
Numerator for net loss applicable to common shareholders.....	\$ (95,038)	\$ (307,349)	\$ (454,127)
Denominator:			
Denominator for net loss per common share - weighted average number of common shares outstanding.....	831	852	855
Net loss per common share before cumulative effect of change in accounting principle - basic.....	\$ (114.42)	\$ (360.88)	\$ (529.22)
Cumulative effect of change in accounting principle.....	-	-	(1.99)
Net loss per common share.....	\$ (114.42)	\$ (360.88)	\$ (531.21)

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Options and warrants to purchase an aggregate of 372,885, 496,729 and 706,196 shares of common stock were outstanding as of December 31, 1998, 1999 and 2000, respectively, but a computation of diluted net loss per common share has not been presented, as the effect of such securities would be anti-dilutive.

14. SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES

Information with respect to noncash investing and financing activities is as follows:

In connection with the Senior Discounts Notes, the Company recognized noncash interest expense of \$33.3 million and \$39.0 million in 1999 and 2000, respectively.

During 1999, the Company issued stock dividends to the holders of the Series E Preferred Stock and Series F Preferred Stock of 5,004 shares and 4,177 shares, respectively. During 2000, the Company issued stock dividends to the holders of the Series E Preferred Stock and Series F Preferred Stock of 9,951 shares and 6,654 shares, respectively.

In connection with options granted to employees under the KMC Holdings Stock Option Plan in 1998, 1999, and 2000 and under the KMC Telecom Stock Option Plan in 1997, cumulative deferred compensation obligations of \$27,906,000, \$50,972,000, and \$89,190,000 have been established in 1998, 1999 and 2000, respectively, with offsetting credits to additional paid-in capital. Noncash compensation expense of \$23,758,000, \$23,947,000 and \$34,571,000 in 1998, 1999 and 2000, respectively, was recognized in connection with such options. In connection with options granted to individuals employed by certain affiliates of the Company in 1998, 1999 and 2000, the Company recognized noncash compensation expense of \$4,668,000, \$5,832,000 and \$3,796,000 respectively. In addition, during 1998 the Company cancelled all of the then outstanding options granted under the KMC Telecom Stock Option Plan, resulting in the reversal of previously recognized compensation expense of

\$21.3 million.

15. RECIPROCAL COMPENSATION

In May 2000, the Company reached a resolution of its claims for payment of certain reciprocal compensation charges, previously disputed by BellSouth Corporation. Under the agreement, BellSouth made a one-time payment that resolved all amounts billed through March 31, 2000. In addition, BellSouth and the Company agreed to future rates for reciprocal compensation, setting new contractual terms for payment. Under the terms of the agreement, the rates for reciprocal compensation will be reduced, and will apply to all local traffic, including ISP-bound traffic, thereby eliminating the principal area of dispute between the parties. The reduction will be phased in over a three-year period beginning with a rate of \$.002 per minute of use until March 31, 2001, \$.00175 per minute of use from April 1, 2001 through March 31, 2002 and \$.0015 per minute of use from April 1, 2002 through March 31, 2003.

The Company is currently pursuing resolution of this issue with other incumbent local exchange carriers. Its goal is to reach mutually acceptable terms for both outstanding and future reciprocal compensation amounts for all traffic. The Company cannot assure you that it will reach new agreements with these carriers on favorable terms. However, as of December 31, 2000, the Company has provided reserves which it believes are sufficient to cover any amounts which may not be collected, but it cannot assure you that this will be the case. The Company will continue to consider the circumstances surrounding this dispute periodically in determining whether additional reserves against unpaid balances are warranted.

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16. FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

CASH AND CASH EQUIVALENTS

The carrying amounts approximate fair value because of the short-term maturity of the instruments.

LONG-TERM DEBT

The carrying amount of floating-rate long-term debt approximates its fair value. The fair value of the Company's fixed-rate long-term debt is estimated using discounted cash flows at the Company's incremental borrowing rates.

REDEEMABLE EQUITY

The fair value of the Company's redeemable equity instruments are estimated based upon third party valuations.

INTEREST RATE SWAP

At December 31, 2000, the Company had two interest rate swap agreements to reduce the impact on interest expense of fluctuations in interest rates on a portion of its variable rate debt. The effect of these agreements is to limit the Company's interest rate exposure on a notional amount of debt of \$415.0 million. The fair value was estimated as the amount the Company would receive if the swap agreements were terminated at December 31, 2000.

ESTIMATED FAIR VALUES

The carrying amounts and estimated fair values of the Company's financial instruments are as follows (IN MILLIONS):

	1999		2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and cash equivalents.....	\$ 86.0	\$ 86.0	\$ 110.0	\$ 110.0
Long-term debt:				
Floating rate.....	235.0	235.0	728.2	728.2
Fixed rate - Senior Discount Notes.....	301.1	275.7	340.2	85.3
Fixed rate - Senior Notes.....	275.0	263.5	275.0	109.5
Redeemable equity instruments:				
Series E Preferred Stock.....	50.8	65.0	62.0	75.0
Series F Preferred Stock.....	41.4	44.2	50.6	47.9
Series A Preferred Stock.....	71.3	150.0	109.3	180.0
Series C Preferred Stock.....	40.3	83.3	72.7	124.5
Series G-1 Preferred Stock.....	-	-	19.4	19.9
Series G-2 Preferred Stock.....	-	-	158.8	162.6
Redeemable common stock.....	33.8	56.0	45.6	67.2
Redeemable common stock warrants.....	12.9	21.6	16.8	25.9
Interest rate swaps (asset):				
1999 Swap.....	-	3.9	-	-
Amended and restated interest rate swap.....	-	-	-	(8.2)
June 2000 swap.....	-	-	-	(5.0)

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CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its cash investments with major financial institutions. With respect to accounts receivable, the Company performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral. At December 31, 2000, reciprocal compensation comprised approximately \$7.2 million or 12.4% of the gross accounts receivable balance. The Company has contracts with Qwest (see Note 9) which accounted for 36% of the Company's total revenue during the year ended December 31, 2000. As of December 31, 2000, amounts due from Qwest comprised \$11.9 million or 20.4% of the Company's total accounts receivable, none of which is past due. For the twelve months ended December 31, 1999 and 1998, no one customer accounted for more than 10% of revenue.

The Company maintains interconnection agreements with the major incumbent local exchange carriers ("ILECs") in each state in which it operates. Among other things, these contracts govern the reciprocal amounts to be billed by competitive carriers for terminating local traffic of Internet service providers ("ISPs") in each state. ILECs around the country have been contesting whether the obligation to pay reciprocal compensation to competitive local exchange carriers should apply to local telephone calls from an ILEC's customers to ISPs served by competitive local exchange carriers. The ILECs claim that this traffic is interstate in nature and therefore should be exempt from compensation arrangements applicable to local intrastate calls. Competitive local exchange carriers have contended that the interconnection agreements provide no exception for local calls to ISPs and reciprocal compensation is therefore applicable. The ILECs have threatened to withhold, and in many cases have withheld, reciprocal compensation to competitive local exchange carriers for the transport and termination of these calls. During 1999 and 2000, the Company recognized revenue from these ILECs of approximately \$9.7 million and \$18.2 million, or 15.1% and 8.7% of 1999 and 2000 revenue, respectively, for these services. Payments of approximately \$1.6 million and \$19.5 million were received from the ILECs during 1999 and 2000, respectively.

The Company determined to recognize this revenue because management

concluded, based upon all of the facts and circumstances available to them at the time, including numerous state public service commission and state and federal court decisions upholding competitive local exchange carriers' entitlement to reciprocal compensation for such calls, that realization of those amounts was reasonably assured.

17. SUPPLEMENTAL GUARANTOR INFORMATION

In May 1999, the Company sold \$275 million aggregate principal amount of Senior Notes. KMC Telecom Financing Inc. (the "Guarantor"), a wholly-owned subsidiary of the Company, has fully and unconditionally guaranteed the Company's obligations under these notes. Separate financial statements and other disclosures of the Guarantor are not presented because management determined the information is not material to investors. No restrictions exist on the ability of the Guarantor to make distributions to the Company except to the extent provided by law generally (adequate capital to pay dividends under corporate laws) and restrictions contained in the Company's credit facilities.

The following condensed consolidating financial information presents the results of operations, financial position and cash flows of KMC Holdings (on a stand alone basis), the guarantor subsidiary (on a stand alone basis), the non-guarantor subsidiaries (on a combined basis) and the eliminations necessary to arrive at the consolidated results for the Company at December 31, 2000 and 1999 and for the years then ended. The non-guarantor subsidiaries include KMC Telecom Inc., KMC Telecom II, Inc., KMC Telecom III, Inc., KMC Telecom IV, Inc., KMC Telecom.com LLC, KMC Telecom of Virginia, Inc., KMC Telecom Financial Services LLC, KMC Telecom Leasing I LLC, KMC Telecom Leasing II LLC, KMC Telecom III Leasing III LLC, KMC Telecom V, Inc., KMC Telecom VI, Inc., KMC Telecom VII, Inc. and KMC Funding Corporation, (collectively, the "Non-Guarantor Subsidiaries").

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GUARANTOR/NON-GUARANTOR CONSOLIDATING BALANCE SHEET DECEMBER 31, 2000 (IN THOUSANDS)

	KMC TELECOM HOLDINGS, INC. PARENT CO.	GUARANTOR	NON- GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED KMC TELECOM HOLDINGS, INC.
ASSETS					
Current assets:					
Cash and cash equivalents.....	\$ 21,922	\$ --	\$ 88,055	\$ --	\$ 109,977
Restricted investments.....	--	37,125	--	--	37,125
Accounts receivable, net.....	--	--	47,141	--	47,141
Prepaid expenses and other current assets.....	1,042	--	13,846	--	14,888
Amounts due from subsidiaries.....	124,455	--	39,273	(163,728)	--
Total current assets	147,419	37,125	188,315	(163,728)	209,131
Investment in subsidiaries.....	35,000	--	--	(35,000)	--
Long-term restricted investments.....	76	19,284	43,571	--	62,931
Networks and equipment, net.....	53,149	--	968,535	--	1,021,684
Intangible assets, net.....	1,368	--	2,467	--	3,835
Deferred financing costs, net.....	17,524	--	15,242	--	32,766
Loans receivable from subsidiaries.....	866,713	--	--	(866,713)	--
Other assets.....	624	--	304	--	928
	\$ 1,121,873	\$56,409	\$1,219,434	\$(1,065,441)	\$ 1,331,275
LIABILITIES, REDEEMABLE AND NONREDEEMABLE EQUITY					
(DEFICIENCY)					
Current liabilities:					
Accounts payable.....	\$ 169,398	\$ --	\$ 11,405	\$ --	\$ 180,803
Accrued expenses.....	38,666	--	34,939	--	73,605
Amounts due to subsidiaries.....	--	--	163,728	(163,728)	--
Deferred revenue.....	--	--	17,839	--	17,839
Total current liabilities	208,064	--	227,911	(163,728)	272,247
Notes payable.....	--	--	728,173	--	728,173
Senior notes payable.....	275,000	--	--	--	275,000
Senior discount notes payable.....	340,181	--	--	--	340,181
Loans payable to parent.....	--	49,415	817,298	(866,713)	--
Losses of subsidiaries in excess of basis.....	596,288	--	--	(596,288)	--
Total liabilities	1,419,533	49,415	1,773,382	(1,626,729)	1,615,601
Redeemable equity:					

Senior redeemable, exchangeable, PIK preferred stock:				
Series E.....	61,992	--	--	61,992
Series F.....	50,568	--	--	50,568
Redeemable cumulative convertible preferred stock:				
Series A.....	109,272	--	--	109,272
Series C.....	72,701	--	--	72,701
Redeemable cumulative convertible preferred stock:				
Series G-1.....	19,435	--	--	19,435
Series G-2.....	158,797	--	--	158,797
Redeemable common stock.....	45,563	--	--	45,563
Redeemable common stock warrants.....	16,817	--	--	16,817
Total redeemable equity.....	535,145	--	--	535,145
Nonredeemable equity (deficiency):				
Common stock.....	6	--	8	(8)
Unearned compensation.....	(16,608)	--	--	(16,608)
Accumulated deficit.....	(816,203)	6,994	(554,956)	561,296
Total nonredeemable equity (deficiency).....	(832,805)	6,994	(554,948)	561,288
	\$1,121,873	\$ 56,409	\$1,218,434	\$ (1,065,441)
				\$ 1,331,275

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GUARANTOR/NON-GUARANTOR CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2000
(IN THOUSANDS)

	KMC TELECOM HOLDINGS, INC. PARENT CO.	GUARANTOR	NON- GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED KMC TELECOM HOLDINGS, INC.
Revenue.....	\$ --	\$ --	\$ 209,195	\$ --	\$ 209,195
Operating expenses:					
Network operating costs.....	--	--	169,593	--	169,593
Selling, general and administrative.....	100,113	--	62,162	--	162,275
Stock option compensation expense.....	33,188	--	1,383	--	34,571
Depreciation and amortization.....	11,878	--	64,251	--	76,129
Total operating expenses.....	145,179	--	237,389	--	442,568
Loss from operations.....	(145,179)	--	(88,194)	--	(233,373)
Intercompany charges.....	134,409	--	(134,409)	--	--
Interest income.....	68,450	3,752	5,885	(66,283)	11,784
Interest expense.....	(80,157)	--	(122,519)	66,283	(136,393)
Equity in net loss of subsidiaries.....	(349,161)	--	--	349,161	--
Net income (loss) before cumulative effect of change in accounting principle.....	(371,638)	3,752	(339,257)	349,161	(357,982)
Cumulative effect of change in accounting principle.....	--	--	(1,705)	--	(1,705)
Net income (loss).....	(371,638)	3,752	(340,962)	349,161	(359,687)
Dividends and accretion on redeemable preferred stock.....	(94,440)	--	--	--	(94,440)
Net income (loss) applicable to common shareholders.....	\$ (466,078)	\$ 3,752	\$ (340,962)	\$ 349,161	\$ (454,127)

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GUARANTOR/NON-GUARANTOR CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2000
(IN THOUSANDS)

	KMC TELECOM HOLDINGS, INC. PARENT CO.	GUARANTOR	NON- GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED KMC TELECOM HOLDINGS, INC.
OPERATING ACTIVITIES					
Net loss.....	\$ (371,638)	\$ 3,752	\$ (340,962)	\$ 349,161	\$ (359,687)
Adjustments to reconcile net loss to net cash used in operating activities:					

Equity in net loss of subsidiaries.....	349,161	--	--	(349,161)	--
Depreciation and amortization.....	11,878	--	64,251	--	76,129
Provision for doubtful accounts.....	--	--	7,875	--	7,875
Non-cash interest expense.....	38,858	77	5,700	--	45,635
Non-cash stock option compensation expense.....	33,188	--	1,383	--	34,571
Changes in assets and liabilities:					
Accounts receivable.....	6	--	(27,649)	--	(27,643)
Prepaid expenses and other current assets.....	207	--	(2,720)	--	(2,513)
Accounts payable.....	128,414	--	(96,873)	--	31,541
Accrued expenses.....	23,837	--	10,286	--	34,123
Deferred revenue.....	--	--	13,530	--	13,530
Amounts due from subsidiaries.....	(51,483)	--	51,483	--	--
Other assets.....	207	--	(216)	--	(9)
Net cash provided by (used in) operating activities.....	162,635	3,829	(312,912)	--	(146,448)
INVESTING ACTIVITIES					
Loans receivable from subsidiaries.....	(276,609)	(35,914)	312,523	--	--
Construction of networks and purchases of equipment.....	(2,934)	--	(473,706)	--	(476,640)
Acquisitions of franchisees, authorizations and related assets.....	(70)	--	(856)	--	(926)
Investments in subsidiaries.....	(35,000)	--	35,000	--	--
Additions to restricted investments.....	--	--	(43,471)	--	(43,471)
Redemption of investments.....	--	32,055	--	--	32,085
Net cash used in investing activities.....	(314,633)	(4,829)	(170,510)	--	(488,952)
FINANCING ACTIVITIES					
Proceeds from notes payable, net of issuance costs.....	--	--	108,475	--	108,475
Proceeds from issuance of preferred stock, net of issuance costs.....	177,500	--	--	--	177,500
Proceeds from exercise of stock options.....	562	--	--	--	562
Proceeds from senior secured credit facility, net of issuance costs.....	--	--	376,203	--	376,203
Repurchase and retirement of Series F Preferred Stock.....	(3,329)	--	--	--	(3,329)
Net cash provided by financing activities.....	174,733	--	484,678	--	659,411
Net increase in cash and cash equivalents.....	22,755	--	1,256	--	24,011
Cash and cash equivalents, beginning of year.....	(833)	--	86,799	--	85,966
Cash and cash equivalents, end of year.....	\$ 21,922	\$ --	\$ 88,055	\$ --	\$ 109,977

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GUARANTOR/NON-GUARANTOR CONSOLIDATING BALANCE SHEET
DECEMBER 31, 1999
(IN THOUSANDS)

	KMC TELECOM HOLDINGS, INC. PARENT CO.	GUARANTOR	NON- GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED KMC TELECOM HOLDINGS, INC.
ASSETS					
Current assets:					
Cash and cash equivalents (overdraft).....	\$ (833)	\$ --	\$ 86,799	\$ --	\$ 85,966
Restricted investments.....	--	37,125	--	--	37,125
Accounts receivable, net.....	6	--	27,367	--	27,373
Prepaid expenses and other current assets.....	1,249	--	126	--	1,375
Amounts due from subsidiaries.....	72,972	--	(72,972)	--	--
Total current assets	73,394	37,125	41,320	--	151,839
Long-term restricted investments.....	--	51,446	--	--	51,446
Networks and equipment, net.....	58,531	--	580,793	--	639,324
Intangible assets, net.....	1,388	--	2,214	--	3,602
Deferred financing costs, net.....	21,031	--	17,785	--	38,816
Loans receivable from subsidiaries.....	590,103	(85,329)	(504,774)	--	--
Other assets.....	825	--	168	--	1,013
Total assets.....	\$ 745,272	\$ 3,242	\$ 137,526	\$ --	\$ 886,040
LIABILITIES, REDEEMABLE AND NONREDEEMABLE EQUITY (DEFICIENCY)					
Current liabilities:					
Accounts payable.....	\$ 40,984	\$ --	\$ 126,506	\$ --	\$ 167,490
Accrued expenses.....	14,967	--	22,080	--	37,047
Deferred revenue.....	--	--	4,309	--	4,309
Total current liabilities.....	55,951	--	152,895	--	208,846
Notes payable.....	--	--	235,000	--	235,000
Senior notes payable.....	275,000	--	--	--	275,000
Senior discount notes payable.....	301,137	--	--	--	301,137
Losses of subsidiaries in excess of basis.....	247,127	--	--	(247,127)	--
Total liabilities.....	879,215	--	387,895	(247,127)	1,019,983

Redeemable equity:					
Senior redeemable, exchangeable, PIK preferred stock:					
Series E.....	50,770	--	--	--	50,770
Series F.....	41,370	--	--	--	41,370
Redeemable cumulative convertible preferred stock:					
Series A.....	71,349	--	--	--	71,349
Series C.....	40,301	--	--	--	40,301
Redeemable common stock.....	33,755	--	--	--	33,755
Redeemable common stock warrants.....	12,925	--	--	--	12,925
Total redeemable equity.....	250,470	--	--	--	250,470
Nonredeemable equity (deficiency):					
Common stock.....	6	--	--	--	6
Additional paid-in capital.....	--	--	--	--	--
Unearned compensation.....	(9,163)	--	--	--	(9,163)
Accumulated deficit.....	(375,256)	3,242	(250,369)	247,127	(375,256)
Total nonredeemable equity (deficiency).....	(384,413)	3,242	(250,369)	247,127	(384,413)
	\$ 745,272	\$ 3,242	\$ 137,526	\$ --	\$ 886,040
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GUARANTOR/NON-GUARANTOR CONSOLIDATING STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1999
(IN THOUSANDS)

	KMC TELECOM HOLDINGS, INC. PARENT CO.	GUARANTOR	NON- GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED KMC TELECOM HOLDINGS, INC.
Revenue.....	\$ --	\$ --	\$ 64,352	\$ (39)	\$ 64,313
Operating expenses:					
Network operating costs.....	--	--	110,348	(39)	110,309
Selling, general and administrative.....	40,714	--	15,089	--	55,803
Stock option compensation expense.....	29,833	--	--	--	29,833
Depreciation and amortization.....	3,104	--	25,973	--	29,077
Total operating expenses.....	73,651	--	151,410	(39)	225,022
Loss from operations.....	(73,651)	--	(87,058)	--	(160,709)
Intercompany charges.....	72,972	--	(72,972)	--	--
Other expense.....	(4,297)	--	--	--	(4,297)
Interest income.....	1,872	3,242	3,587	--	8,701
Interest expense.....	(36,729)	--	(32,682)	--	(69,411)
Equity in net loss of subsidiaries.....	(185,883)	--	--	185,883	--
Net income (loss).....	(225,716)	3,242	(189,125)	185,883	(225,716)
Dividends and accretion on redeemable preferred stock.....	(81,633)	--	--	--	(81,633)
Net income (loss) applicable to common shareholders.....	\$ (307,349)	\$ 3,242	\$ (189,125)	\$ 185,883	\$ (307,349)
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GUARANTOR/NON-GUARANTOR CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1999
(IN THOUSANDS)

	KMC TELECOM HOLDINGS, INC. PARENT CO.	GUARANTOR	NON- GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED KMC TELECOM HOLDINGS, INC.
OPERATING ACTIVITIES					
Net loss.....	\$ (225,716)	\$ 3,242	\$ (189,125)	\$185,883	\$ (225,716)
Adjustments to reconcile net loss to net cash used in operating activities:					
Equity in net loss of subsidiaries.....	185,883	--	--	(185,883)	--
Depreciation and amortization.....	3,104	--	25,973	--	29,077
Non-cash interest expense.....	36,963	--	(5,822)	--	31,141
Non-cash stock option compensation expense.....	29,833	--	--	--	29,833
Changes in assets and liabilities:					
Accounts receivable.....	(6)	--	(19,828)	--	(19,834)
Prepaid expenses and other current assets.....	(917)	--	857	--	(60)
Accounts payable.....	441	--	(28,878)	--	29,319
Accrued expenses.....	9,075	--	15,152	--	24,227
Amounts due from subsidiaries.....	(52,050)	--	52,050	--	--
Other assets.....	1,128	--	2,592	--	3,720
Net cash provided by (used in) operating activities.....	(12,262)	3,242	(89,273)	--	(98,293)
INVESTING ACTIVITIES					
Loans receivable from subsidiaries.....	(324,390)	85,329	239,061	--	--
Construction of networks and purchases of equipment.....	(18,327)	--	(300,209)	--	(318,536)
Acquisitions of franchises, authorizations and related assets.....	(796)	--	(1,196)	--	(1,992)
Redemption (purchase) of investments.....	--	(88,571)	27,920	104,101	43,450
Net cash used in investing activities.....	(343,513)	(3,242)	(34,424)	104,101	(277,078)
FINANCING ACTIVITIES					
Proceeds from issuance of preferred stock and related warrants, net of issuance costs.....	91,001	--	--	--	91,001
Proceeds from exercise of stock options.....	333	--	--	--	333
Proceeds from issuance of senior notes, net of issuance costs and purchase of portfolio of restricted investments.....	262,387	--	--	(104,101)	158,286
Proceeds from senior secured credit facility, net of issuance costs.....	--	--	192,836	--	192,836
Issuance costs of Lucent facility.....	--	--	(2,300)	--	(2,300)
Net cash provided by financing activities.....	353,721	--	190,536	(104,101)	440,156
Net increase (decrease) in cash and cash equivalents.....	(2,054)	--	66,839	--	64,785
Cash and cash equivalents, beginning of year.....	1,221	--	19,960	--	21,181
Cash and cash equivalents, end of year.....	\$ (833)	\$ --	\$ 86,799	\$ --	\$ 85,966

18. SUBSEQUENT EVENTS

KMC FUNDING MONETIZATION

In March 2001, the Company entered into a financing transaction (the "KMC Funding Monetization") that resulted in the Company receiving unrestricted gross proceeds of \$325.0 million from a secured loan. The KMC Funding Monetization is secured by the future cash flows from the Company's Nationwide Data Platform business contract that was entered into in June 2000 (see Note 9). The KMC Funding Monetization requires that the principal and interest be paid on a monthly basis upon receipt of the monthly proceeds from the related contract. The Company retains the right to receive the remaining cash flows from this contract which are expected to be approximately 25% of the monthly cash flows (from which on-going operational expenses must be paid). The Company realized net proceeds of approximately \$145.5 million after using the gross proceeds to

pay off the 48 month loan which the Company obtained from Dresdner Kleinwort Benson North American Leasing, Inc. in November 2000 to finance its acquisition of the KMC Funding Equipment (see Note 5), as well as financing fees and expenses related to the monetization. The interest rate on the KMC Funding Monetization is 7.34%.

KMC FUNDING V MONETIZATION

In March 2001, the Company entered into a financing transaction (the "KMC Funding V Monetization") that resulted in the Company receiving unrestricted gross proceeds of \$225.4 million from a secured loan. The KMC Funding V Monetization is secured by the future cash flows from the Company's Nationwide Data Platform business contract that was entered into in March 2000 (see Note 9). The KMC Funding V Monetization requires that the principal and interest be paid on a monthly basis upon receipt of the monthly proceeds from the related contract. The Company retains the right to receive the remaining cash flows from this contract which are expected to be approximately 25% of the monthly cash flows (from which on-going operational expenses must be paid). The Company realized net proceeds of approximately \$125.5 million after using the proceeds to exercise its purchase option with respect to the KMC Funding V Equipment which the Company was leasing from GECC and CIT Lending Services Corporation under an operating lease, as well as to pay any financing fees and expenses related to the monetization. The interest rate on the KMC Funding V Monetization is 6.77%.

SPRINGING WARRANTS

Effective February 4, 2001 the Company became obligated to issue warrants to purchase an aggregate of 107,228 shares of its common stock at an exercise price of \$.01 per share to certain holders of the Series E Preferred Stock and Series F Preferred Stock as a result of the Company's failure to redeem, prior to that date, all of the outstanding shares of Series F Preferred Stock. The issuance of these warrants will trigger anti-dilution provisions in our Series A Preferred Stock, Series C Preferred Stock and Series G Preferred Stock resulting in adjustments to the conversion prices which may result in an increase in the number of shares of common stock into which they are convertible of approximately 20,522 shares, 14,194 shares and 18,478 shares, respectively. The issuance of the Springing Warrants will also trigger anti-dilution provisions in certain of our other outstanding warrants which will increase the number of shares of common stock for which such warrants are exercisable by approximately 3,740 shares.

SERIES F PREFERRED STOCK

Effective February 4, 2001, all the shares of Series F Preferred Stock were converted into shares of Series E Preferred Stock on a one to one basis in accordance with the provisions of the Certificate of Designations of the Series F Preferred Stock.

VOIP EQUIPMENT CONTRACT

In March 2001, the Company entered into an agreement with Qwest pursuant to which (i) the Company purchased approximately \$65 million of Voice over Internet Protocol equipment from Qwest and (ii) the Company agreed to install and maintain this equipment throughout the United States, principally to handle Voice over Internet Protocol traffic on behalf of Qwest. The services agreement commences in the second half of 2001 and expires 48 months later, and

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provides guaranteed annualized revenues of approximately \$29 million. The Company expects to enter into a financing transaction to fund the cost of this equipment.

AMENDMENT TO AMENDED SENIOR SECURED CREDIT FACILITY

In April 2001, the Company and its Lenders under the Amended Senior Secured Credit Facility agreed to make certain further amendments to the facility, including the following:

Certain of the financial covenants were amended to reflect changes in the Company's business since the Amended Senior Secured Credit Facility was entered into and to permit continued compliance with those covenants by the Borrowers in accordance with the Company's revised business plan. In addition, certain additional financial covenants were added, the most significant of which will require the Borrowers to meet specific liquidity tests prior to each due date of cash interest and dividend payments on the Company's senior discount notes, senior notes and preferred stock.

In addition to the existing reductions in the aggregate Revolver commitment, the Revolver commitment will be further reduced, pro rata with the Term Loan and Lucent Term Loan, (i) by applying the net asset sale proceeds of certain asset sales (both as defined in the Amended Senior Secured Credit Facility) in an amount equal to 85% of gross property, plant and equipment allocated to the assets sold, plus 50% of any proceeds in excess of the full gross property, plant and equipment allocated to the assets sold (plus a make up of any shortfall on prior asset sales), (ii) by 50% of the net securities proceeds (as defined) from the future issuance of equity interests by KMC Holdings in excess of a cumulative \$ 200.0 million and (iii) by prepayment of an aggregate of \$100 million on before May 1, 2002.

The Company will be required to use 50% of the excess cash flows (as defined) from its National Data Platform business to make additional capital contributions to the Borrowers.

The repayment schedule for the Term Loan was amended to provide for 17 consecutive quarterly installments commencing April 1, 2003 in the same percentages of outstanding principal amount as the specified percentage reduction in the Revolver commitment on the same date. The final installment will now be due on April 1, 2007. Repayments of the Term Loan will also be made from its pro rata share of net assets sale proceeds, net securities proceeds and the \$100.0 million repayment required to be made by May 1, 2002, all as described above.

The repayment schedule for the Lucent Term Loan was also amended to provide for 17 consecutive quarterly installments commencing April 1, 2003 in the same percentages of outstanding principal amount as the specified percentage reduction in the Revolver commitment on the same date. The final installment will now be due on April 1, 2007. Repayments on the Lucent Term Loan will also be made from its pro rata share of net asset sale proceeds, net securities proceeds and the \$100.0 million repayment required to be made by May 1, 2002, all as described above.

The interest rates on loans under the Amended Senior Secured Credit Facility were increased. The "Applicable Base Rate Margin" now ranges from 3.25% to 4.25% and the "Applicable LIBOR Margin" now ranges from 4.25% to 5.25%. Interest is now payable monthly.

KMC Holdings has agreed that it will form a subsidiary holding company which will own all of the common stock of its operating subsidiaries which are engaged in its National Data Platform business. KMC Holdings has agreed to pledge the shares of the data subsidiary holding company as further collateral for KMC Holdings' guaranty of the Amended Senior Secured Credit Facility.

In connection with the amendment, the Lenders also waived failures by the Borrowers to comply with certain of the prior financial covenants as of March 31, 2001 and the Company made aggregate capital contributions to the Borrowers of \$200.0 million. In addition, the collateral for KMC Holdings' guaranty of the Amended Senior Secured Credit Facility was expanded to include substantially all of the assets of KMC Holdings.

LENDER WARRANTS

In connection with the execution of the amendment to the Amended Senior Secured Credit Facility discussed above, the Company agreed to deliver to a

warrant agent certificates representing warrants to purchase an aggregate of 166,542 shares of common stock at an exercise price of \$.01 per share (the "Lender Warrants"). The terms of the Lender Warrants provide that they will become issuable under the circumstances described in the following paragraphs.

If the Company fails to (i) prepay an aggregate of \$50 million under the Amended Senior Secured Credit Facility by October 31, 2001, (ii) prepay an additional \$50 million under the Amended Senior Secured Credit Facility by January 31, 2002 and (iii) make additional cash capital contributions to the Borrowers in the aggregate amount of \$50 million by January 31, 2002, 50% of the Lender Warrants will be issued pro rata to the Lenders under the Amended Senior Secured Credit Facility. If the Company fails to make additional cash capital contributions to the Borrowers in the aggregate amount of \$100 million by March 31, 2002 (including any amounts taken into consideration pursuant to clause (iii) above), 50% of the Lender Warrants will be issued pro rata to the Lenders under the Amended Senior Secured Credit Facility. Any Lender Warrants which do not become issuable as described herein will be returned to the Company by the Warrant Agent.

NOTE REPURCHASES

We believe that the present market prices of our 12 1/2% senior discount notes and our 13 1/2% senior notes represent an opportunity for us to reduce our long-term debt. Accordingly, our subsidiaries have recently made, and may in the future make, purchases of senior discount notes and/or senior notes in the open market from time to time at then prevailing market prices. Certain of our officers and directors may also make purchases for their own account. We may utilize a portion of our unrestricted cash to pay for any purchases of senior discount notes or senior notes that we may make.

FUTURE DEBT REPAYMENT SCHEDULE

Due to the significant changes in the Company's future debt repayment structure subsequent to December 31, 2000, the principal repayment schedule of the Company's outstanding debt as of March 31, 2001 is as follows (IN THOUSANDS):

2001	\$ 86,327
2002	129,952
2003	221,478
2004	269,017
2005	221,002
Thereafter	904,675

Total	\$ 1,832,451
	=====

Independent Auditors' Report on Schedules

The Board of Directors and Stockholders
KMC Telecom Holdings, Inc.

We have audited the consolidated balance sheets of KMC Telecom Holdings, Inc. as of December 31, 1999 and 2000 and the related consolidated statements of operations, redeemable and nonredeemable equity and cash flows for the years then ended. Our audit report issued thereon dated April 17, 2001 is included elsewhere in this Form 10-K. Our audit also included the financial statement schedules listed in Item 14(a) of this Form 10-K. These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

MetroPark, New Jersey
April 17, 2001

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SCHEDULE I - Condensed Financial Information of Registrant
KMC Telecom Holdings, Inc.
(Parent Company)
Condensed Balance Sheets
(IN THOUSANDS)

	DECEMBER 31	
	1999	2000
ASSETS		
Current assets:		
Cash and cash equivalents (overdraft).....	\$ (833)	\$ 21,920
Amounts due from subsidiaries.....	72,972	124,455
Prepaid expenses and other current assets.....	1,255	1,042
Total current assets.....	73,394	147,417
Loans receivable from subsidiaries.....	590,103	866,713
Networks, property and equipment, net.....	58,531	53,149
Intangible assets, net.....	1,388	1,368
Deferred financing costs, net.....	21,031	17,524
Investment in subsidiaries.....	-	35,000
Other assets.....	825	700
	<u>\$ 745,272</u>	<u>\$ 1,121,871</u>
LIABILITIES, REDEEMABLE AND NONREDEEMABLE EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable.....	\$ 40,984	\$ 169,398
Accrued expenses.....	14,967	38,666
Total current liabilities.....	55,951	208,064
Senior notes payable.....	275,000	275,000
Senior discount notes payable.....	301,137	340,181
Losses of subsidiaries in excess of basis.....	247,127	596,288
Total liabilities.....	<u>879,215</u>	<u>1,419,533</u>

Redeemable equity:

Senior redeemable, exchangeable, PIK preferred stock, par value \$.01 per

share; authorized: 630 shares in 1999 and 2000; shares issued and

outstanding:

Series E, 65 shares in 1999 and 75 shares in 2000 (\$74,954 liquidation

preference).....

Series F, 44 shares in 1999 and 48 shares in 2000 (\$47,866 liquidation

preference).....

Redeemable cumulative convertible preferred stock, par value \$.01 per share;

499 shares authorized; shares issued and outstanding:

Series A, 124 shares in 1999 and 2000 (\$12,380 liquidation preference)...

Series C, 175 shares in 1999 and 2000 (\$17,500 liquidation preference)...

Redeemable cumulative convertible preferred stock, par value \$.01 per share;

50,770 61,992

41,370 50,568

71,349 109,272

40,301 72,701

2,500 shares authorized; shares issued and outstanding:		
Series G-1, -0- shares in 1999 and 59 shares in 2000 (\$19,900 liquidation preference)	--	19,435
Series G-2, -0- shares in 1999 and 481 shares in 2000 (\$162,600 liquidation preference)	--	158,797
Redeemable common stock, shares issued and outstanding, 224 in 1999 and 2000	33,755	45,563
Redeemable common stock warrants	12,925	16,817
Total redeemable equity	250,470	535,145
Nonredeemable equity (deficiency):		
Common stock, par value \$.01 per share, 4,250 shares authorized; shares issued and outstanding: 629 shares in 1999 and 637 shares in 2000	6	6
Unearned compensation	(9,163)	(16,608)
Accumulated deficit	(375,256)	(816,205)
Total nonredeemable equity (deficiency)	(384,413)	(832,807)
	\$ 745,272	\$ 1,121,871

SEE ACCOMPANYING NOTES.

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SCHEDULE I - Condensed Financial Information of Registrant

KMC Telecom Holdings, Inc.
(Parent Company)Condensed Statements of Operations
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1998	1999	2000
Operating expenses:			
Selling, general and administrative	\$ 19,624	\$ 40,714	\$ 100,113
Stock option compensation expense	21,190	29,833	33,188
Depreciation and amortization	1,197	3,104	11,878
Total operating expenses	42,011	73,651	145,179
Loss from operations	(42,011)	(73,651)	(145,179)
Other expense	--	(4,297)	--
Intercompany charges	20,922	72,972	134,409
Interest income	8,575	18,297	68,450
Interest expense	(23,104)	(53,154)	(80,157)
Equity in net loss of subsidiaries	(41,135)	(185,883)	(349,161)
Net loss	(76,753)	(225,716)	(371,638)
Dividends and accretion on redeemable preferred stock	(18,285)	(81,633)	(94,440)
Net loss applicable to common shareholders	\$ (95,038)	\$ (307,349)	\$ (466,078)

SEE ACCOMPANYING NOTES.

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SCHEDULE I - Condensed Financial Information of Registrant

KMC Telecom Holdings, Inc.
(Parent Company)Condensed Statements of Cash Flows
(IN THOUSANDS)

YEAR ENDED DECEMBER 31,

	1998	1999	2000
OPERATING ACTIVITIES			
Net loss.....	\$ (76,753)	\$ (225,716)	\$ (371,638)
Adjustments to reconcile net loss to net cash used in operating activities:			
Equity in net loss of subsidiaries.....	41,135	185,883	349,161
Depreciation and amortization.....	1,197	3,104	11,878
Non-cash interest expense.....	23,104	36,963	38,858
Non-cash stock option compensation expense.....	21,190	29,833	33,188
Changes in assets and liabilities:			
Accounts receivable.....	-	-	6
Prepaid expenses and other current assets.....	(332)	(923)	207
Accounts payable.....	2,043	441	128,414
Accrued expenses.....	5,838	9,075	23,837
Amounts due from subsidiaries.....	(20,922)	(52,050)	(51,483)
Other assets.....	(1,952)	1,128	207
Net cash provided by (used in) operating activities.....	(5,452)	(12,262)	162,635
INVESTING ACTIVITIES			
Loans receivable from subsidiaries.....	(233,685)	(324,390)	(276,609)
Purchases of equipment.....	(5,845)	(18,327)	(2,934)
Investments in subsidiaries.....	-	-	(35,000)
Acquisitions of intangible assets.....	(166)	(796)	(70)
Net cash used in investing activities.....	(239,696)	(343,513)	(314,613)
FINANCING ACTIVITIES			
Proceeds from issuance of preferred stock, net of issuance costs.....	-	91,001	177,500
Proceeds from exercise of stock options.....	-	333	562
Proceeds from issuance of senior notes, net of issuance costs and purchase of portfolio of restricted investments.....	-	262,387	-
Proceeds from issuance of common stock and warrants, net of issuance costs.....	20,446	-	-
Repurchase and retirement of Series F Preferred Stock.....	-	-	(3,329)
Proceeds from issuance of senior discount notes, net of issuance costs.....	225,923	-	-
Net cash provided by financing activities.....	246,369	353,721	174,733
Net increase (decrease) in cash and cash equivalents.....	1,221	(2,054)	22,755
Cash and cash equivalents, beginning of year.....	-	1,221	(833)
Cash and cash equivalents, end of year.....	\$ 1,221	\$ (833)	\$ 21,922

SEE ACCOMPANYING NOTES.

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SCHEDULE I - Condensed Financial Information of Registrant

KMC Telecom Holdings, Inc.
(Parent Company)

Notes to Condensed Financial Statements

December 31, 2000

1. BASIS OF PRESENTATION

In the parent company only financial statements, KMC Telecom Holdings, Inc.'s (the "Company") investment in subsidiaries is stated at cost less equity in losses of subsidiaries since date of formation. These parent company financial statements should be read in conjunction with the Company's consolidated financial statements.

Pursuant to a management agreement among the Company and its subsidiaries, the Company provides management and other services and incurs certain operating expenses on behalf of its subsidiaries. Such costs are allocated to the subsidiaries by the Company and reimbursed on a current basis. At December 31, 1999 and 2000, an aggregate of \$73.0 and \$124.5 million, respectively, was due from the subsidiaries for such costs and is included in the accompanying condensed balance sheet at December 31, 1999 and 2000 as a current receivable. Such reimbursements are permitted under the debt agreements of the Company's subsidiaries.

2. AMENDED SENIOR SECURED CREDIT FACILITY

See Note 5 of the Notes to Consolidated Financial Statements.

3. INTEREST RATE SWAP AGREEMENT

See Note 6 of the Notes to Consolidated Financial Statements.

4. SENIOR DISCOUNT NOTES

See Note 5 of the Notes to Consolidated Financial Statements.

5. SENIOR NOTES

See Note 5 of the Notes to Consolidated Financial Statements.

6. REDEEMABLE EQUITY

See Note 7 of the Notes to Consolidated Financial Statements.

7. ARBITRATION AWARD

During the second quarter of 1999, the Company recorded a \$4.3 million charge to other expense in connection with an unfavorable arbitration award. The net amount due under the terms of the award was paid in full in June 1999.

8. SUBSEQUENT EVENTS

See Note 18 of the Notes to Consolidated Financial Statements.

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KMC Telecom Holdings, Inc.
SCHEDULE II Valuation and Qualifying Accounts
(IN THOUSANDS)

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS - DESCRIBE	BALANCE AT END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS - DESCRIBE		
YEAR ENDED DECEMBER 31, 1998:					
Allowance for doubtful accounts	\$ 34	\$ 370	\$ --	\$ 54 (1)	\$ 350
YEAR ENDED DECEMBER 31, 1999:					
Allowance for doubtful accounts	\$ 350	\$5,263	\$ --	\$ 62 (1)	\$ 5,551
YEAR ENDED DECEMBER 31, 2000:					
Allowance for doubtful accounts	\$5,551	\$7,875	\$ --	\$ 2,505 (1)	\$10,921

(1) Uncollectible accounts written-off.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The following table sets forth certain information with respect to the persons who are members of the Board of Directors or are executive officers of the Company as of March 30, 2001.

NAME POSITION	AGE	
----	---	---

Harold N. Kamine.....	44	Chairman of the Board of
Directors		
Gary E. Lasher.....	65	Vice Chairman of the Board of
Directors		
William F. Lenahan.....	50	Chief Executive Officer and
Director		
Roscoe C. Young II.....	50	President, Chief Operating
Officer and Director		
William H. Stewart.....	34	Executive Vice President,
Chief Financial Officer and Director		
Robert L. Nibbs, Jr.	49	Executive Vice President,
Field Sales and Operations		
Larry G. Salter.....	52	Executive Vice President,
Network Services		
Tricia Breckenridge.....	54	Executive Vice President,
Business Development		
John G. Quigley.....	47	Director
Richard H. Patterson.....	42	Director
Alexander P. Coleman.....	34	Director
Jeffrey M. Tudor.....	27	Director

The business experience of each of the directors and executive officers of the Company is as follows:

HAROLD N. KAMINE is our founder and has been the Chairman of our board of directors since 1994. He is a co-owner of KNT Network Technologies LLC, which is our exclusive provider of outside network related construction and maintenance services. Previously, he was the Chief Executive Officer and sole owner of Kamine Development Corp. and associated companies in the independent power industry. Mr. Kamine has successfully financed a number of unregulated non-utility power generation projects. Companies owned by Mr. Kamine owned substantial interests in and managed six power generation plants in the Northeastern United States. Mr. Kamine devotes less than half his time to our affairs.

GARY E. LASHER joined us as Vice Chairman of our board of directors effective November 1, 1997. He was the founder, Chief Executive Officer and President of Eastern TeleLogic Corporation from 1987 to 1997. Eastern TeleLogic was a leading competitive local exchange carrier operating in greater Philadelphia, Delaware and southern New Jersey before its purchase by Teleport Communications Group in October 1996. Prior to Eastern TeleLogic, from 1984-1986, Mr. Lasher was Chief Operating Officer of Private Satellite Network, a company which built and operated video satellite networks for major corporations. Mr. Lasher also spent 20 years with Continental Telephone holding various positions including Corporate Vice President, President of the International Engineering and Construction Company, and various senior positions with Continental Telephone's regulated subsidiaries. Mr. Lasher is one of the founding members of the Association for Local Telecommunications Services and served for three years as Chairman of the Association. Mr. Lasher is also Chairman of the Board of Linx Communications, a privately-owned provider of unified personal communications services.

WILLIAM F. LENAHA joined us as our Chief Executive Officer effective May 1, 2000 and has been a director since May 2000. He was President and Chief Executive Officer of BellSouth Wireless Data from October 1994 to April 2000, and was responsible for financial performance and nationwide wireless data strategy for this division of BellSouth Corporation. From 1987 to 1993, he was Vice President/General Manager and then President and Chief Executive Officer of three Sears divisions--Sears Business Centers, Office Centers and Computer Services. In 1986, he was named President and Chief Executive Officer of BellAtlantic's Compushop division, a reseller of PCs and communications products. Mr. Lenahan has served nearly 30 years in the information technology, telecommunications and data industries. He began his career at IBM, where he worked for 12 years in a variety of sales, marketing, operations and human resources executive assignments, and sat on the IBM Product Review Board. He later joined United Telecom, the forerunner of Sprint, where he started

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Amerisource, a new business that resold PBXs, PCs and systems integration products. He was a member of the Advisory Councils of IBM, Compaq and NCR.

ROSCOE C. YOUNG II has over 20 years experience in the field of telecommunications with both new venture and Fortune 500 companies. He has served as a director since December 1999 and President and Chief Operating Officer since March 2000. Previously, he had been our Executive Vice President and Chief Operating Officer. Prior to joining us in November 1996, Mr. Young served as Vice President, Network Component Services for Ameritech Corporation from June 1994 to October 1996. From March 1988 to June 1994, Mr. Young served as Senior Vice President, Network Services for MFS Communications. From October 1977 to March 1988, Mr. Young served in a number of senior operations, sales and marketing, engineering, financial management, and human resource positions for AT&T Corp.

WILLIAM H. STEWART has served as a director since August 1997. Mr. Stewart joined us as Executive Vice President and Chief Financial Officer in March 2000. Previously, Mr. Stewart was a Managing Director of Nassau Capital L.L.C. after joining that firm in June 1995. From 1989 until joining Nassau, Mr. Stewart was a portfolio manager and equity analyst at the Bank of New York. He is a Chartered Financial Analyst and a member of the New York Society of Security Analysts.

ROBERT L. NIBBS, JR. joined us in November 1997. He is our Executive Vice President of Field Sales and Operations and oversees all sales and operations activities in KMC's Tier III markets. Prior to joining KMC, he served over 20 years in marketing, sales and operations positions with Ameritech Corporation.

LARRY G. SALTER joined us in December 1997. He is the Executive Vice President of Network Services and has over 30 years experience in the field of telecommunications. Prior to joining us, he spent 28 years with AT&T where he worked in Bell Labs, as well as senior level positions in marketing and product management.

TRICIA BRECKENRIDGE joined us in April 1995. From January 1993 to April 1995, she was Vice President and General Manager of FiberNet USA's Huntsville, Alabama operations. Previously, she had served as Vice President, External Affairs and later Vice President, Sales and Marketing of Diginet, Inc. She was co-founder of Chicago Fiber Optic Corporation, the predecessor of Metropolitan Fiber Systems. Earlier, she was Director of Regulatory Affairs for Telesphere Corporation.

JOHN G. QUIGLEY has served as a director since August 1996. Mr. Quigley is a founding member of Nassau Capital L.L.C., the independent firm that has managed Princeton University endowment's \$2.0 billion private investment program since 1995. Nassau Capital L.L.C. is the general partner of Nassau Capital Partners L.P. and Nassau Capital Partners IV L.P. Mr. Quigley is also on the board of directors of KNT Network Technologies LLC and an adjunct faculty member at Columbia Law School.

RICHARD H. PATTERSON has served as a director since May 1997. From May 1986 to June 1999, Mr. Patterson served as a partner of Waller Capital Corporation, a media and communications investment banking firm. Since June 1997, he has served as a Vice President of Waller-Sutton Media LLC and Vice President of Waller-Sutton Management Group, Inc., two entities which manage a media and telecommunications private equity fund. Since October 1999, he has served as Managing Member of Spire Capital Partners, a media and telecommunications fund providing growth capital to private companies. Mr. Patterson is a member of the board of directors of Regent Communications, Inc., which owns and operates radio stations in small-to-mid size markets.

ALEXANDER P. COLEMAN has served as a director since July 2000. Since January 1996, Mr. Coleman has served as Vice President and Investment Partner of Dresdner Kleinwort Benson Private Equity LLC, Dresdner Bank AG's United States leveraged buyout group. Prior to joining Dresdner Kleinwort Benson Private Equity LLC, Mr. Coleman served in several corporate finance positions for Citicorp/Citibank N.A. from 1989 through 1995, and most recently as Vice President of Citicorp Venture Capital. Mr. Coleman is also a director of Gardenburger, Inc. and Tritel, Inc.

JEFFREY M. TUDER has served as a director since January, 2001. Since 1998, Mr. Tudor has served as a Principal with Nassau Capital L.L.C. Prior to joining Nassau Capital in 1998, Mr. Tudor was a Financial Analyst with ABS Capital Partners, L.P. from 1996 to 1998, and served in the investment banking division of Alex. Brown & Sons from 1995 to 1996. Mr. Tudor is also on the Board of Managers of KNT Network Technologies LLC.

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Pursuant to provisions contained in an Amended and Restated Stockholders Agreement dated as of October 31, 1997, as further amended, among the Company, Kamine, Nassau, CIT Lending Services Corporation, GECC, First Union, Lucent and Dresdner Kleinwort Benson (the "Stockholders' Agreement"), these stockholders have agreed to vote their shares and take all necessary actions to elect the following individuals to the Company's board of directors: the Chief Executive Officer, the President, three individuals designated by Nassau, two individuals designated by Kamine, one individual designated by Dresdner and one individual as an independent director approved by Nassau, Kamine and other principal existing stockholders. Lucent or a person to whom Lucent transfers its shares may be entitled to designate one individual under certain circumstances. The number of directors each of Nassau, Kamine and Dresdner is entitled to designate will decrease as their respective percentages of ownership decrease. If a default relating to payment occurs under the Amended Senior Secured Credit Facility and continues uncured for 90 days, the holders of Series C Preferred Stock (currently Nassau, GECC and First Union) are entitled to elect two additional Directors, who will serve until the default is cured. In addition, under the certificate of designations relating to each of our Series E Preferred Stock and Series F preferred Stock, if a default occurs under such certificate(s), the holders of Series E Preferred Stock and/or the holders of the Series F Preferred Stock will have the right to elect one additional individual each to serve as a director (for a total of two additional directors), in each case until the default is cured and all accrued dividends on such preferred stock are paid in full.

Kamine/Besicorp Allegany L.P., an independent power company 50% owned by corporations which Mr. Kamine owns, filed a voluntary petition to reorganize its business under Chapter 11 of the Federal Bankruptcy Code in November 1995. In October 1998, the bankruptcy court confirmed a plan of liquidation for this entity.

Directors hold office until the next Annual Meeting of stockholders or until their successors are duly elected and qualified. Executive officers are elected annually by the Board of Directors and serve at the discretion of the Board of Directors.

COMMITTEES OF THE BOARD

Our board of directors has authorized a Compensation Committee to be composed of three members. The present members of the Compensation Committee are Messrs. Quigley, Patterson and Coleman. Our board of directors has created an Executive Committee consisting of Messrs. Kamine, Quigley and Coleman. Our board of directors has also created an Audit Committee consisting of Messrs. Lasher, Patterson, Quigley and Coleman.

ITEM 11. EXECUTIVE COMPENSATION.

SUMMARY COMPENSATION TABLE

The following table sets forth information concerning compensation for services in all capacities awarded to, earned by, or paid to, any person acting as the Company's Chief Executive Officer during 2000, regardless of the amount of compensation paid, and the other four most highly compensated executive officers of the Company whose aggregate cash and cash equivalent compensation exceeded \$100,000 during the fiscal year ended December 31, 2000 (collectively, the "Named Executive Officers"):

NAME AND POSITION	YEAR	ANNUAL COMPENSATION		OTHER ANNUAL COMPENSATION (\$)(1)	LONG TERM COMPENSATION
		SALARY (\$)	BONUS (\$)		SECURITIES UNDERLYING OPTIONS (#)
William F. Lenahan(2)..... Chief Executive Officer	2000	\$317,382	\$1,000,000	-	50,000
Michael A. Sternberg(3)..... President and Chief Executive Officer	2000	\$142,195	-	-	-
	1999	\$496,539	\$272,500	-	-
	1998	\$275,000	\$407,500	-	65,000
Harold N. Kamine..... Chairman of the Board	2000	\$485,053	-	-	-
	1999	\$450,000	-	-	-
Roscoe C. Young II..... President and Chief Operating Officer	2000	\$591,200	\$1,150,000	-	17,500
	1999	\$446,539	\$362,500	-	-
	1998	\$218,270	\$497,500	\$52,189	32,500
William H. Stewart(4)..... Executive Vice President, Chief Financial Officer	2000	\$278,864	\$500,000	-	35,000
Robert L. Nibbs, Jr..... Executive Vice President, Sales and Operations	2000	\$235,975	\$303,069	-	2,000

(1) The amounts reported in this column for Mr. Young in 1998 include relocation related expenses of \$47,377 and personal use of a Company automobile of \$4,812. The aggregate value of the perquisites and other personal benefits, if any, received by Mr. Young for 2000 and 1999 and by the other Named Executive Officers for all years presented have not been reflected in this table because the amount was below the Securities and Exchange Commission's threshold for disclosure (i.e., the lesser of \$50,000 or 10% of the total of annual salary and bonus for the executive officer for the year).

(2) Mr. Lenahan joined the Company as Chief Executive Officer effective May 1, 2000 and the compensation figures for him are for the period from that date to the end of the year.

- (3) Mr. Sternberg served in the capacities indicated from the beginning of the year until March 8, 2000 and the compensation figure for him is for that period. For a description of amounts payable to Mr. Sternberg pursuant to a separation agreement, see "--separation agreements" below.
- (4) Mr. Stewart joined the Company as Executive Vice President and Chief Financial Officer on March 9, 2000 and the compensation figures for him are for the period from that date to the end of the year.

STOCK OPTION GRANTS

The following table sets forth information regarding grants of options to purchase shares of Common Stock made by the Company during 2000 to each of the Named Executive Officers.

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OPTION GRANTS IN FISCAL YEAR 2000								
INDIVIDUAL GRANTS								
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#) (1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL 2000	EXERCISE OR BASE PRICE (\$/SHARE)	MARKET PRICE OF COMMON STOCK ON DATE OF GRANT (2)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM (3)		
						(0%)	(5%)	(10%)
William F. Lenahan.....	50,000	19.6%	\$75	\$300	5/12/10	\$11,250,000	\$20,683,000	\$35,156,000
Michael A. Sternberg...	-	-	-	-	-	-	-	-
Harold N. Kavine.....	-	-	-	-	-	-	-	-
Roscoe C. Young II....	17,500	6.8%	\$75	\$300	3/6/10	\$3,938,000	\$7,239,000	\$12,305,000
William H. Stewart.....	35,000	13.7%	\$75	\$300	3/6/10	\$7,875,000	\$14,478,000	\$24,609,000
Robert L. Nibbs, Jr....	2,000	1.0%	\$250	\$300	4/12/10	\$100,000	\$477,000	\$1,056,000

- (1) Mr. Lenahan, Mr. Young, and Mr. Stewart's options vested 25% upon issuance and continue to vest 12.5% every six months thereafter. Mr. Nibbs options vest annually over three years.
- (2) There is no active trading market for the Company's Common Stock. The market price shown is based upon management's estimate of the fair value of the Company's Common Stock on the date when these options were granted.
- (3) Amounts reported in these columns represent amounts that may be realized upon exercise of options immediately prior to the expiration of their term assuming the specified compounded rates of appreciation (0%, 5% and 10%) on Common Stock over the term of the options. These assumptions are based on rules promulgated by the Securities and Exchange Commission and do not reflect the Company's estimate of future stock price appreciation. Actual gains, if any, on the stock option exercises and Common Stock holdings are dependent on the timing of such exercises and the future value of the Common Stock. There can be no assurance that the rates of appreciation assumed in this table can be achieved or that the amounts reflected will be received by the option holders.

OPTION EXERCISES AND OPTION YEAR-END VALUE TABLE

No options were exercised during 2000 by any of the Named Executive Officers. The following table sets forth information regarding the number and year-end value of unexercised options to purchase shares of Common Stock held at December 31, 2000 by each of the Named Executive Officers.

FISCAL 2000 YEAR-END OPTION VALUES

VALUE OF UNEXERCISED		NUMBER OF SECURITIES	
"IN-THE-MONEY"		UNDERLYING UNEXERCISED	
OPTIONS AT	SHARES	VALUE	OPTIONS AT
DECEMBER 31, 2000	ACQUIRED ON	REALIZED	DECEMBER 31, 2000
NAME	EXERCISE (#)	(\$)	EXERCISABLE/UNEXERCISABLE
EXERCISABLE/UNEXERCISABLE(1)			
-----	-----	-----	-----
William F. Lenahan.....	-	-	18,750/31,250
\$4,219,000/\$7,031,000			
Michael A. Sternberg.....	-	-	65,000/-
\$17,810,000/\$ -			
Harold N. Kamine.....	-	-	-
-			
Roscoe C. Young II.....	-	-	35,812/14,188
\$9,536,000/\$3,192,000			
William H. Stewart.....	-	-	13,125/21,875
\$2,953,000/\$4,922,000			
Robert L. Nibbs, Jr.....	-	-	3,000/4,000
\$822,000/\$648,000			
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(1) Options are "In-the-Money" if the fair market value of the underlying securities exceeds the exercise price of the options. There is no active trading market for the Company's Common Stock. The fair market value of the option grants at December 31, 2000 was determined on the basis of management's estimate of the fair value of the Company's Common Stock on that date.

DIRECTOR COMPENSATION

Our Directors do not currently receive any compensation for their services in such capacity, except that Mr. Lasher receives \$25,000 per year in connection with his services as our Vice Chairman and was granted options to acquire 12,000 shares of our stock and Mr. Patterson receives \$25,000 and options to acquire 1,000 shares of our common stock per year in connection with his services as a Director.

EXECUTIVE EMPLOYMENT CONTRACTS

We have an employment contract with Harold N. Kamine, the Chairman of our board of directors. Our employment agreement with Mr. Kamine provides for a term of four years, effective as of January 1, 1999. Under the agreement, Mr. Kamine is paid a base salary of \$450,000 per annum and is entitled to be considered for bonuses in amounts to be determined by the Board of Directors. Mr. Kamine is entitled to receive benefits generally received by our senior executives, including reimbursement of expenses incurred on our behalf, and participation in group plans. If Mr. Kamine's employment agreement is terminated as a result of Mr. Kamine's death or permanent disability, or upon our breach of the agreement, he, or his estate, is entitled to a severance payment in an amount equal to the lesser of two times his annual base salary and

the aggregate unpaid base salary that would have been paid to him during the remaining balance of the term of the employment contract, subject to a minimum of one-half of his annual base salary.

We have an employment contract with William F. Lenahan, Chief Executive Officer and a member of our board of directors. Our employment agreement with Mr. Lenahan provides for a term of five years, effective as of May 1, 2000. However, the term will be automatically extended for successive two year periods unless either party provides notice to the other, at least ninety days prior to the end of the term, that the agreement will not be extended. Under the agreement, Mr. Lenahan's base salary is \$500,000 per annum and he is entitled to be considered for an annual bonus in an amount to be determined by the Compensation Committee of the board of directors. In addition to the annual bonus, Mr. Lenahan will be entitled to receive a total of \$3.0 million in bonus payments with \$500,000 payable upon completion of each of three (3) financing transactions related to our data services agreements with Qwest, \$500,000 payable upon the Company achieving positive EBITDA and \$1.0 million payable upon the next equity capital event (public or private), other than an initial public offering, in which at least \$100.0 million is invested in the Company. With our agreement, Mr. Lenahan may elect to receive these special bonuses in common stock in lieu of cash. Mr. Lenahan is also entitled to receive benefits generally received by our officers, including options to purchase our common stock, reimbursement of expenses incurred on our behalf, and a leased automobile. If we terminate Mr. Lenahan's employment without cause, or if the term of his employment agreement expires, prior to an initial public offering or upon our change in control, Mr. Lenahan will be entitled to receive a makeup bonus equal to \$5.0 million. Upon termination of the agreement, Mr. Lenahan is subject to a confidentiality covenant and a twenty- four month non-competition

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agreement. Mr. Lenahan is entitled to receive a severance payment in an amount ranging from 0% to 200% of his base salary upon termination of his employment depending on the cause of such termination. Upon payment of the makeup bonus, all stock and stock options which Mr. Lenahan may have with regard to our equity will be terminated.

We have an employment contract with Roscoe C. Young, II, President, Chief Operating Officer and a member of our board of directors. The term of Mr. Young's employment under the employment agreement became effective as of March 6, 2000, and continues until March 31, 2005, unless earlier terminated in accordance with the employment agreement. Under the agreement, Mr. Young's base salary is \$500,000 per annum and he is entitled to be considered for an annual bonus in an amount to be determined by the Compensation Committee of our board of directors. In addition to the annual bonus, Mr. Young will be entitled to receive a total of \$3.0 million in bonus payments with \$500,000 payable upon completion of each of three (3) financing transactions related to our data services agreements with Qwest, \$500,000 payable upon the Company achieving positive EBITDA and \$1.0 million payable upon the next equity capital event (public or private), other than an initial public offering, in which at least \$100.0 million is invested in the Company. With our agreement, Mr. Young may elect to receive these special bonuses in common stock in lieu of cash. Mr. Young is entitled to receive benefits generally received by our officers, including options to purchase our stock, reimbursement of expenses incurred on our behalf, and a leased automobile. Upon termination of the agreement, Mr. Young is subject to a confidentiality covenant and a twenty-four month non-competition agreement. If we terminate Mr. Young's employment without cause, he is entitled to a severance payment in an amount equal to two times his annual base salary.

We also have an employment contract with William H. Stewart, our Chief Financial Officer and Executive Vice President. Our agreement with Mr. Stewart provides for a term of three years, effective as of March 9, 2000. Under the agreement, Mr. Stewart's base salary is \$350,000 per annum and he is entitled to be considered for an annual bonus in an amount to be determined by the Compensation Committee of our board of directors. In addition to the annual bonus, Mr. Stewart will be entitled to receive a total of \$2.0 million in bonus

payments with \$500,000 payable upon the completion of each of two (2) financing transactions related to our data services agreements with Qwest, \$500,000 payable upon the Company achieving positive EBITDA and \$500,000 payable upon the next equity capital event (public or private), other than an initial public offering, in which at least \$100.0 million is invested in the Company. With our agreement, Mr. Stewart may elect to receive these special bonuses in common stock in lieu of cash. Mr. Stewart is entitled to receive benefits generally received by our officers, including options to purchase our stock, reimbursement of expenses incurred on our behalf, and a leased automobile. Upon termination of the agreement, Mr. Stewart is subject to a confidentiality covenant and a twenty-four month non-competition agreement. If we terminate Mr. Stewart's employment without cause, he is entitled to a severance payment in an amount equal to two times his annual base salary.

SEPARATION AGREEMENTS

On March 7, 2000, we entered into a separation agreement and release with Michael A. Sternberg, pursuant to which Mr. Sternberg's employment as our President and Chief Executive Officer was terminated, by mutual agreement, effective March 8, 2000. Under the separation agreement, Mr. Sternberg was paid a total of \$1.0 million. Mr. Sternberg was also reimbursed for accrued vacation time. Pursuant to the agreement, we will pay the costs associated with Mr. Sternberg's current enrollment in our health care plans through December 31, 2001. Mr. Sternberg also retained 65,000 stock options previously granted to him under our stock option plan. Mr. Sternberg has agreed to vote any shares of common stock owned by him in accordance with the shares owned by Mr. Kamine and Nassau. Mr. Sternberg has agreed to make himself available to consult with us on a non-exclusive basis through December 31, 2001.

On March 7, 2000, we entered into a separation agreement and release with James D. Grenfell, pursuant to which Mr. Grenfell's employment as our Executive Vice President, Chief Financial Officer and Secretary was terminated, by mutual agreement, effective March 8, 2000. Under the separation agreement, Mr. Grenfell was paid a total of \$1.0 million. Pursuant to the agreement, we will pay the costs associated with Mr. Grenfell's current enrollment in our health care plans through December 31, 2001. Mr. Grenfell also retained 3,600 stock options previously granted to him under our stock option plan. Mr. Grenfell has agreed to vote any shares of common stock owned by him in accordance with the shares owned by Mr. Kamine and Nassau. We also paid Mr. Grenfell \$148,000 for certain relocation and other services.

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EMPLOYEE PLANS

KMC HOLDINGS STOCK OPTION PLAN. Employees, directors or other persons having a unique relationship with the Company or any of its affiliates are eligible to participate in the KMC Holdings Stock Option Plan. However, neither Mr. Kamine nor any person employed by Nassau or any affiliate of Nassau is eligible for grants under the plan. The KMC Holdings Stock Option Plan is administered by the Compensation Committee of the Board of Directors of the Company. The Compensation Committee is authorized to grant (i) options intended to qualify as Incentive Options, (ii) Non-Qualified Options, (iii) stock appreciation rights, (iv) restricted stock, (v) performance units, (vi) performance shares and (vii) certain other types of awards.

The number of shares of Company Common Stock available for grant under the KMC Holdings Stock Option Plan is 600,000. As of March 30, 2001, options to acquire 522,864 shares of common stock were outstanding under the plan. No participant may receive more than 75,000 shares of Company Common Stock under the KMC Holdings Stock Option Plan.

The Compensation Committee has the power and authority to designate recipients of grants under the KMC Holdings Stock Option Plan, to determine the terms, conditions and limitations of grants under the plan and to interpret the provisions of the plan. The exercise price of all Incentive Options granted under the KMC Holdings Stock Option Plan must be at least equal to the Fair Market Value (as defined in the plan) of Company Common Stock on the date the

options are granted and the exercise price of all Nonqualified Options granted under the KMC Holdings Stock Option Plan must be at least equal to 25% of the Fair Market Value of Company Common Stock on the date the options are granted. The maximum term of each Option granted under the KMC Holdings Stock Option Plan will be 10 years. Options will become exercisable at such times and in such installments as the Compensation Committee provides in the terms of each individual Option.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Kamine, our Chairman, and Messrs. Coleman, Quigley and Patterson served as members of the Compensation Committee during at least a portion of 2000. The present members of the Committee are Messrs. Coleman, Quigley and Patterson. Mr. Quigley is also a member of Nassau Capital L.L.C. which, through its affiliates, beneficially owns more than five percent of our voting securities.

We are entitled to use a Citation III business jet chartered by Bedminster Aviation LLC, a limited liability company wholly owned by Mr. Kamine, for a fixed price per hour of flight time. During 2000, we paid Bedminster Aviation approximately \$1.7 million for the use of the Citation III. We have agreed to use our best efforts to use the Citation III fifty hours per quarter during 2001. However, we are under no obligation to do so and we have not guaranteed any financial arrangements with respect to the aircraft or to Bedminster Aviation LLC.

Effective August 18, 2000, we entered into a 12 year lease, with an entity controlled by Kamine, for all three floors of the building (approximately 50,000 square feet) in Bedminster, New Jersey in which we are presently headquartered. The new lease provides for a base annual rental cost of approximately \$1.0 million, adjusted periodically for changes in the consumer price index, plus operating expenses. The building is owned by a company in which a trust for the benefit of Mr. Kamine's children owns a fifty percent interest. Previously, under the terms of a lease initially entered into in June 1996, we had leased smaller amounts of space in the building in which our headquarters are located. The earlier lease had provided for a base annual rental of \$217,000 (adjusted periodically for changes in the consumer price index), plus operating expenses. Pursuant to these leases we paid an aggregate of \$1.1 million during 2000.

We are currently in negotiations to complete the transfer of our construction division to KNT Network Technologies, LLC a company independently owned by Harold N. Kamine and Nassau Capital, our principal stockholders. Pursuant to an arrangement between the parties, effective June 1, 2000, we transferred substantially all of the employees of our construction division to KNT. KNT is providing construction and maintenance services to us and is being reimbursed for all of the direct costs of these activities. In addition, we are currently funding substantially all of KNT's general overhead and administrative costs at an amount not to exceed \$15 million per annum.

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Amounts paid to KNT during fiscal 2000 related to this arrangement amounted to \$20.0 million, of which \$8.7 million was for network related construction and was capitalized into networks and equipment and the balance was charged to expense. Further, we may be entitled to participate in future profits of KNT, to the extent KNT develops a successful third-party construction business.

We are currently negotiating with KNT to finalize the terms of this arrangement and execute a formal contract which is required to be completed by June 15, 2001.

Pursuant to an agreement between us, Mr. Kamine and Nassau, Nassau is paid financial advisory fees in cash at a rate of \$450,000 per annum.

Upon the initial closing of our offering of our Series G Convertible

Preferred Stock in July 2000, we paid a fee of \$2.0 million in cash to Dresdner Kleinwort Benson Private Equity LLC, an affiliate of one of our principal stockholders, a fee of \$1.0 million in cash to Nassau Capital L.L.C. and a fee of \$400,000 in cash to CIT.

Upon the initial closing, in November 2000, of the 48 month term loan we obtained to finance our acquisition of the KMC Funding Equipment, we paid a fee of \$1.0 million in cash to Dresdner Kleinwort Benson North American Leasing, Inc. Mr. Coleman is currently serving as Vice President and Investment Partner of Dresdner Kleinwort Benson Private Equity LLC, an affiliate of this entity.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information regarding the beneficial ownership of the Common Stock, as of March 30, 2000, by (i) each person known to the Company to be the beneficial owner of more than 5% of the Common Stock, (ii) each of the Company's directors, (iii) each of the Named Executive Officers, and (iv) all directors and executive officers as a group. All information with respect to beneficial ownership has been furnished to the Company by the respective stockholders of the Company.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES (1)	PERCENTAGE OWNERSHIP (1)
Harold N. Kamine..... c/o Kamine Development Corp. 1545 Route 206 Bedminster, NJ 07921	581,485	66.9%
Nassau Capital Partners L.P. (2)..... c/o Nassau Capital L.L.C. 22 Chambers Street Princeton, NJ 08542	726,255	46.2%
CIT Lending Services Corporation (3)..... 44 Whippany Road Morristown, NJ 07960	269,337	27.7%
First Union Corp. (4)..... 301 South College St. Charlotte, NC 28288	196,793	18.7%
General Electric Capital Corporation (5)..... 120 Long Ridge Road Stamford, CT 06927	255,533	22.9%
CIBC Inc. 425 Lexington Avenue New York, New York 10017	44,104	5.1%

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NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES (1)	PERCENTAGE OWNERSHIP (1)
Lucent Technologies Inc. (6) 600-700 Mountain Avenue Murray Hill, NJ 07974	363,678	29.7%
Dresdner Kleinwort Benson Private Equity Partners LP (7) 75 Wall Street New York, NY 10005	153,005	15.1%
William F. Lenahan (8) c/o KMC Telecom Holdings, Inc. 1545 Route 206, Suite 300 Bedminster, New Jersey 07921	25,000	2.8%
Michael A. Sternberg (8) c/o KMC Telecom Holdings, Inc. 1545 Route 206, Suite 300 Bedminster, New Jersey 07921	65,000	7.0%